FOREWORD

THIS volume deals with one of the great agencies for thrift and investment. For the great mass of people with dependents, life insurance should be the first type of security to be purchased. Where a dependent family is at stake it is the height of folly to urge investment in other directions, and it is quite beside the point to offer laborious explanations of the relative merits of various classes of bonds and other types of investment. The first duty of every man is to protect his household against want in case of premature death, and this can be done only through the purchase of an adequate amount of life insurance. As is well known, life insurance offers a convenient and safe method of accumulating a savings fund at a very fair rate of return. But the greatest purpose of life insurance is to protect. It takes time to save and, where dependents must be protected, life insurance alone guarantees the accumulation of a competency against the contingency of the saving period being cut short by an untimely death. The great mass of people live only within the life insurance stage and are removed by thousands of dollars from the point where they can judiciously become direct investors along other lines. But, for those who have emerged from the life insurance stage, good bonds constitute the most favorable type of investment, all advantages being considered such as safety, yield, convertibility, stability of price, convenience of handling and suitability for quick borrowing. Even the billions of savings of those living in the life insurance stage, it should be remembered, are chiefly invested in bonds, although indirectly, since this type of security constitutes the major portion of the investments of life insurance companies.

The accumulation of a decent competency should be regarded as a duty and an act of wisdom. Yet present practices in attempting to attain this desirable goal remind one of Æsop's fable of the race between the tortoise and the hare. The hare relied upon the speedy method of running the race, expected to leap to victory, and accordingly saw fit, somewhere on the race-course to take a nap. The tortoise, on the contrary, relied upon his steady, persistent and unspectacular gait, and won the race. And such is the case today in the race for a decent competency. Many seek to win by the quick method. They expect to leap to success. They assume highly speculative hazards, particularly in stocks, without possessing either the financial or educational equipment, and, as a rule, are put to sleep somewhere along the course. Others adopt the slow method. They save their surplus earnings patiently and persistently, invest the same in gilt-edged bonds, are satisfied with a fair interest return, allow compound interest to work its wonders, and win the race. When the hare of Æsop's fable awoke from his sleep he realized his defeat and lost all interest in the race. When the incompetent speculator awakes from his folly he finds his

resources gone, and along with them all hope and all ambition to try once more. Conscious of his folly and crushed by the bitterness of disappointment, he almost invariably loses all interest in the goal he strove to reach and, financially speaking, goes to sleep permanently.

The difficulty of accumulating and retaining a competency is well illustrated by the fact that only one out of every ten adults in this country leaves a decent estate at the time of death, and that of those who acquire a reasonable competency by the time age 50 is reached one-half again lose the same before death. Much of this miserable showing is traceable to two very prevalent practices on the part of the general public. The first relates to the purchase of stocks, often of a very hazardous and questionable nature, by those who are not at all equipped to judge the merits of the proposition, and, in fact, are ignorant of the fundamental nature of that type of security. Bonds are credit instruments and, with few exceptions, contain a definite promise as to principal and interest. Stock certificates, on the contrary, promise nothing at all. They merely constitute an evidence of ownership, a certification of the holder's privilege to share in risk, *i.e.*, to participate in the varying fortunes of the business enterprise.

Few facts deserve to be impressed more upon the investing public than this fundamental distinction between bonds and stocks. Common observation shows that the American people are afflicted with a mania for speculation and gambling in the security market. They seem callous to risk. The words "preferred" and "guaranteed" and the "promise" of fancy dividends serve, as probably nowhere else, as an irresistible attraction. Were this not the case there would soon be an end to the present wholesale tendency to fill the principal newsprints and flood the mails with alluring advertisements and prospectuses. So serious has the problem become everywhere that the nation has been subjected to an epidemic of "blue sky" legislation of one kind or another designed to protect the public against their own folly (see the article on "*Blue Sky*" *Laws*).

The second unwelcome tendency relates to the very general practice of the investing public to "go it alone," instead of seeking the advice of conservative and well established investment concerns. The average investor is not in a position to base his selection of a bond upon personal examination. Nor is it practicable for the average investor to spread his investments so widely as to have the law of average render negligible a serious loss on any particular security. The wisest course, therefore, is to invest only in such securities as are recommended by responsible investment houses (see article on *The Work of an Investment Banking House*). Numerous such concerns exist throughout the United States. They are specialists in the bond business and possess the experience and training necessary for a proper investigation and selection of securities. Their greatest trade asset is their past record for good judgment. Such concerns must operate on the theory that sound advice to clients is the surest road to large business, while faulty recommendation is a quick and certain way to failure.

Avoidance of the aforementioned deplorable practices, now so deeply ingrained in the American psychology, can be accomplished only gradually, and reliance for a change must be placed largely upon education. This volume, it is hoped, will be of service in this respect. In one sense it is a successor to the volume on *Bonds as Investment Securities* issued by the American Academy thirteen years ago which enjoyed a wide circulation and served as a basis for numerous educational courses. In fact, it was the continued demand for this volume, even after such considerable lapse of time, that suggested the desirability of issuing a new and up-to-date volume on the subject. The changes wrought by time in the bond market have been so numerous and important that all of the articles in the present volume, except two, are essentially new. One of these exceptions deals with principles which are unchangeable, and the other, although retaining its original form, has been materially revised to meet the changes of the past decade. The purpose of the volume is to explain the bond market from a fourfold standpoint, viz., (1) the features of bonds and the services of the investment banker, (2) present problems and tendencies associated with the various types of American and foreign government and corporate bonds, (3) leading problems of current interest to the bond market in general and (4) the record of bond prices and the factors that govern such prices.

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